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REMARKS REFERRED TO THE RATES OF PROFITABILITY AS RELATIVE EXPRESSION OF PROFIT

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Abstract *It is known that, fundamentally, for any economic agent, the first and most important goal is maximizing profits. In order for the managers to have self-control and control, in the activity of the company, by survey, or periodically, they can carry out some calculus, on profitability, using some parametric, called rate of profitability. There are other methods. In our study, we opted for the first variation, it seemed to be closer to the truth and to the possibility of comparison, between parameters and their interpretation, for the prospective actions and activities of the economic organization.*

Key words:
Rates
Profitability
Profit
Liquidity
JEL Codes:
G12

1. INTRODUCTION

Under the conditions of placement and multiplication of money resources, it is a question of choosing the optimal way of investing, which best fits the goals and expectations of the investor. For this, each type of investment (or placement) will be associated with two notions: **profitability** and **risk.**

In a narrow sense, through profitability we understand the level of insured earnings by an investment. For example, the profitability of a bank deposit will be determined by the interest rate paid by the depositor's banc.

2. THE EFFICIENT MANAGEMENT OF FINANCIAL PORTFOLIOS

Managing financial portfolios is a complex activity based on a series of scientific models that can assess the financial performance of securities markets as well as the risks that investors pose. portfolio management can be carried out, including even those who are not specialists in the field but who can manage their own portfolios with positive results if they follow and apply a set of principles and techniques. (http://www.scritub.com/economie/Gestiunea-portofoliului-de-act6413242423.php)

Portfolio management aims to optimize the holding of financial instruments. But it has to be said that the optimum has different meanings depending on each investor, knowing that they have different degrees of tolerance and aversion in terms of risk exposure. The investor decides what is the combination of financial instruments that he considers to be optimal, taking into account his attitude to risk (Sichigea and Berceanu, 2015).

Portfolio investment All companies holding financial portfolios have the opportunity to make investments to increase profitability, depending on the pecfic and the object of activity. (http://www.referatele.com/referate/economie/online10/Economiile-si-investitiile-referatele-com.php)

Most of the economic agents act on the money market less on the capital market, because on this market there are transactions with maturity trading securities, up to one year (bill of exchange, promissory note, warrant, check), as well and inter-bank settlement of deposits (spot or forward deposits). And on this market, the operations are carried out through institutions or specialized persons (banks, brokers, dealers) and are aimed at financing the economic activity that is connected with the credits and with the circulation of the cash, in the short term, for the saving they make payments.

Having such complex activities in their portfolios, it is advisable that each firm performs auditing, an operation that ought not to omit the calculation of profitability rates as a relative expression of profit.

3. PROFITABILITY AND ECONOMIC EFFICIENCY

"Profitability is a synthetic form of expression of economic efficiency that reflects a company's ability to make profit. Under market economy conditions" [Bordeianu, http://www.rasfoiesc.com/business/economie/Analiza-diagnostic-pe-baza-rat32.php] profit is the core objective of any enterprise. Increasing it and, implicitly, profitability, is an objective necessity, vital to the very existence of the enterprise. Enterprises that turn out to be unprofitable are bankrupt. Profitability thus appears as a decisive tool in the market economy mechanism, in guiding production in relation to consumer requirements (productive or individual). Profitability implies obtaining some revenue, after selling and collecting the manufactured output, higher than the expenses incurred by its realization.

The most common way of expressing Profitability is percentage expression, as it provides a comparable picture of the profitability of different investment instruments. There are several ways to calculate the return on a placement, but for simplicity, the following calculation formula will be taken:

Profitability (%) = (final amount - Initial amount invested) / Initial amount invested x 100

For example, it is considered that the deposit with the bank, amounting to 500,000 lei, for a period of 6 months, with an interest for this period, 75,000 lei. The Profitability of the bank deposit for the six months will be at the level of 15% of the initial amount (corresponding to a 30% annual interest rate)

We can calculate the return on equity investment. For example, we buy 500 ABC shares at a rate of 1,000 lei / share on 1 January and we sell them on July 1 of the same year when their rate became 1.500 lei / share. In this case, the initial amount invested will be 500 shares x 1000 lei share = 500,000 lei, the final amount will be 500 shares x 1,500 lei / share = 750,000 lei, and the return on investment will be: Profitability (%) = (Final amount - Initial amount) / Initial amount x 100 = (750,000 - 500,000) / 500,000 x 100 = 50%.

Now we have an indicator to ensure the comparability of the two proposed investment options - bank deposit and equity investment.

The example of investing in ABC shares is resumed: it has been assumed that after the six months, the share price has grown by 50%. Equally well, this rate may have slower growth, or even a decline, resulting in a negative return, or a loss for the investor.

This brings us to the notion of **risk**. Risk is the probability of obtaining a certain return. “There is no universal risk-calculation formula, as there are countless factors that can affect the performance of a certain investment: in the case of bank deposit there is the (lower) bank bankruptcy risk, while in the case of equity investment there is the risk (high) that shares fall due to poor results of ABC”. (http://www.revistadestatistica.ro/supliment/wpcontent/uploads/2018/01/A04_RO_rrss_01_2018.pdf)

There is a direct proportional link between the risk and the return on investment. Thus, the lower the risk, the lower the return on investment; the higher the risks, the higher the profitability that can be provided by an investment.

The bottom line is that "the type of investment that ensures an optimal ratio between profitability and risk should be pursued, adjusted according to expectations, possibilities, and last but not least, the risk aversion of each investor" [Dinu, 2002)

Another notion to use is **liquidity** that is the ability of an asset to be converted into money. Thus, it can be said that the investment in stock exchanges is less liquid (the shares turn harder in money by selling them to the stock exchange, with the possibility that no (https://www.bnr.ro/Monitorizarea-in-domeniul-platilor--3105.aspx) interested buyer can be found) than a bank deposit (which can be turned into money more easily, and can be withdrawn anytime from the bank).

4. RATES OF PROFITABILITY

The Profitability is a "(synthetic) indicator of capital importance, general and financial management of the firm, being the expression (all synthesis) of results of any kind, obtained by the firm" (Bogdan, 2002).

Profitability is expressed using rates, and the rate of return is the relative expression of profit, in percent (%).

This expression provides information in addition to the mass of the profit and especially for the comparison of time and space and programs.

Rate of return (www.rasfoiesc.com/business/economie/Rata-rentabilitate75.php).

Rate of return is a relative (synthetic) size that reflects the ratio between an economic result and the economic means employed to obtain it. It expresses the efficiency of the company's business activity, ensuring the link between profit and net turnover

At the same time, it shows, on the one hand, the capacity of an economic unit to make a profit, and on the other hand, the extent to which both own and permanent capital bring profit (Troacă, 2002).

The rate of profitability reflects the quality of the company's evolution and is influenced by all the factors that act within the firm (Bordeianu, http://www.rasfoiesc.com/business/economie/Analiza-diagnostic-pe-baza-rat32.php).

"The management of the company, the shareholders, the creditors, the investors are interested in knowing the level and evolution of the enterprise's profitability indicators" (Ion-Bocanete, 2016).

The rate of profitability, as a performance indicator, may have several forms of expression, depending on how a result or results indicator is reported (profit, EBE or other (www.rasfoiesc.com/business/economie/Rata-rentabilitatii75.php) partial profitability indicators) to a global activity indicator (turnover, operating income, value added) or to the advanced or consumed economic means to achieve that result (as effort indicators).

The most important rates of return are:

- rate of economic profitability,
- the rate of financial return,
- rate of profitability of consumed resources,
- return on earnings.

4.1. The rate of economic profitability measures the total performance of a business, regardless of the way of financing and the tax system. This rate can be expressed in several forms, depending on how the effort indicator is expressed. We meet as follows:

- the rate of economic return on assets, when the effort indicator is represented by total or operating assets;

- the rate of economic return of invested capital, when the effort indicator is the invested capital.

a) The economic return on assets is calculated as the ratio between the total result of the exercise or the total gross profit (Pb) and the total asset (At), consisting of fixed assets (Ai) and current assets (Ac):

$$Ra = \frac{Pb}{At} \cdot 100 = \frac{Pe + Pf + Pex}{Ai + Ac} \cdot 100.$$

Its level is of interest primarily to the managers of the enterprise, who appreciate the efficiency with which the available assets are used.

b) The rate of economic return on invested capital is determined as the ratio between the total result of the exercise or the operating result and the invested capital:

$$Re = \frac{Pb;Pe}{Kinv} \cdot 100$$

The level of this rate is primarily concerned with current and potential investors (shareholders and banks), which compares it with the profitability of other forms of placement (interest rates on bank deposits, gains from investing capital in other companies, etc.), but also managers, for whom a high level of this rate signifies an efficient management of the invested capital. In this respect, they compare the rate of economic return with the average cost of capital (RCI), and the following situations can be met:

- when Re > Rci, means that the developed activity produces an economic profit higher than the cost of capital, with a positive economic value added, which will increase the market value of the enterprise;
- when Re < Rci, it means that the profitability obtained can not cover the demands of the capital suppliers, there is a negative economic value added and a reduction of the own capital.

4.2. Financial profitability rate (Rf)

Expresses the efficient use of the firm's equity. For this reason, the rate of financial profitability is of particular importance, first of all, for shareholders who appreciate, depending on their level, whether their investment is justified and whether they will continue to support the development of the firm by providing new capital or by giving up, for a limited period, to part of the dividends due.

The rate of financial profitability is essentially influenced by the existence of two factors:

- the use of the borrowed capital within the capital structure of the enterprise;

- the deductibility of interest expenses by introducing them into the enterprise's expenses (as financial expense) and the existence of the "tax shield" effect.

In addition, it is necessary that the rate of economic return is higher than the cost of the borrowed capital, otherwise the use of borrowed capital becomes inefficient.

The rate of financial return can be calculated by reporting net profit (Pn) to the size of equity, as follows:

$$Rf = \frac{Pn}{Kpr} \times 100.$$

From the relationship of this rate, it results that, in order to increase its level, it is necessary for the net profit to grow at a rate higher than the increase in equity.

4.3. Consumption Ratio Rates Rate (Rc) Expresses as a ratio between a certain economic result and the expenses incurred to obtain it. It shows interest for managers of the enterprise, which must ensure the efficient use of the available resources(www.rasfoiesc.com/business/economie/Rentabilitatea-definitie-indic33.php). So we can calculate the following rates:

a) Expense Ratio of Operating Expenses (RCE):

$$Rce = \frac{Pe}{Ce} \times 100$$

in which: - the operating expenses;

b) Ratio of return on turnover (Rc), calculated as the ratio between the turnover of the enterprise (Pr) and the cost of the production sold:

$$Rc = \frac{Pr}{C} \cdot 100$$

Changing the rate of profitability of consumed resources is directly explained by changing the structure of the sold (s), product costs (c) and sales prices excluding VAT by product category (p). The level of this rate depends on the activity of the enterprise, being higher in the slow-moving companies of assets and lower in the fast-roaming firms.

4.4. The rate of return on income (Rv) expresses the total profit of 100 lei revenue. Its level is determined by the relationship:

$$Rv = \frac{Pt}{Vt} \cdot 100$$

Through this model, we are looking at the correlation between profit dynamics and revenue dynamics.

Commercial Rates Rate (Rcom) is a variation of the rate of return on revenue, circumscribed to the operating activity, is the Commercial Rates Rate (RCO). This rate expresses the efficiency of the enterprise's business activity as a result of efforts to promote pricing policy adopted by the enterprise. If we refer strictly to the production and marketing activity, that is, to the turnover profit, because the operating result may contain the influence of other elements that are not directly related to the turnover, the rate of commercial profitability or sales can be expressed thus:

$$Rv = \frac{Pt}{Vt} \cdot 100$$

These models include the same factors of influence as the rate of return on consumed resources, in the same order of conditioning: production structure, production cost and sales price.

The level of this rate depends on the activity of the enterprise, being higher in the slow-moving companies of assets and lower in the fast-roaming firms.

COMPENSATORY RENTABILITIES

Another aspect of the Profitability of investments is related to the period they are place. We assume that we will make a simple deposit of 1.000.000 lei at the bank, with a monthly interest of 3%, and we will withdraw every month the interest obtained. In this case, the annual return on the deposit will be 3% x 12 months = 36%. (interest only serves as an example; Table no. 1) (www.referate.com/referate/economie/online10/Economiile-si-investitiile-referatele-com.php)

Table no. 1 Evolution of the amount in the savings account

Initial amount	1.000.000 lei
Month I	1.000.000 + (3% x 1.000.000) = 1.030.000
Month II	1.030.000 + (3% x 1.030.000) = 1.060.900
Month III	1.060.900 + (3% x 1.060.900) = 1.092.727
an so on	....

Source - Gestiunea portofoliului de active [Asset Portfolio Management], in www.scritub.com/economie/Gestiunea-portofoliului-de-act6413242423.php

In fact, most announced bank interest rates are annual interest, even if they refer to shorter periods of time (this is the source of some confusion). Thus, when a commercial bank announces "We give a 35% interest on three-month deposits", this means that the annual interest rate is 35%.

Obviously, the interest capitalization (presented above) ensures a higher return on the initial amount, for the 3 months, only 35% x interest

(3/12) = 8.75%.

The table illustrates the situation when the monthly interest rate of 3% is added to the existing amount. In this case, an interest capitalization is made (Table no. 1) compared to the situation in which the interest does not capitalize:

Table no. 2 - Cumulative inflation rate

Initial amount	1.000.000 lei
Month I	1.000.000 + (3% x 1.000.000) = 1.030.000
Month II	1.030.000 + (3% x 1.000.000) = 1.060.000
Month III	1.060.000 + (3% x 1.000.000) = 1.090.000
and so on	....

Source - Gestiunea portofoliului de active [Asset Portfolio Management], in www.scritub.com/economie/Gestiunea-portofoliului-de-act6413242423.php

According to the same principle, a cumulative inflation rate is calculated on the basis of monthly inflation rates announced by the National Commission for Statistics (Table no. 2).

5. CONCLUSIONS

Profitability is a synthetic form of expression of economic efficiency that reflects a company's ability to make profit. Under market economy conditions, profit is the primary objective of any enterprise. Increasing it and, implicitly, Profitability is an objective necessity, vital to the existence of the enterprise itself. Enterprises that turn out to be unprofitable are bankrupt. Profitability thus appears as a decisive tool in the market economy mechanism, in orienting production in relation to consumer requirements (productive or individual). Profitability implies obtaining some revenue, after selling and collecting the manufactured output, higher than the expenses incurred by its realization.

The most common way of expressing Profitability is percentage expression, as it provides a comparable picture of the profitability of different investment instruments. There are several ways of calculating Profitability.

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